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Retail Food Sector

Annual

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Report Highlights:

Although over 70% of food products are sold through mom and pop's stores (colmados), supermarkets are the most important distribution channel for imported products. The major supermarket chains import directly as well as have exclusivity rights for certain brands. The implementation of the DR-CAFTA is the major achievement during this year, which strengthens the competitiveness of the United States in the Dominican market. A major issue to monitor, however, is the enforcement of the Spanish labeling requirement, which will restrict the import of some food products from the United States.

Includes PSD Changes: No
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Annual Report
Santo Domingo [DR1]
[DR]

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RETAIL FOOD SECTOR REPORT

I. MARKET OVERVIEW

A. The Economic Situation

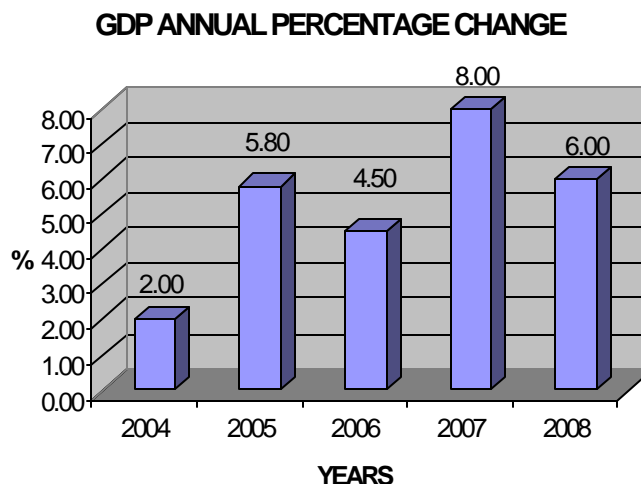
The Dominican economy is currently stable and expectations are for continued growth. The country will have presidential elections in May 2008, and the Economist points out on its web page that it is expected that President Fernandez remain in power (The Economist web page, November 9, 2007).

The Dominican Republic has a standby agreement with The International Monetary Fund (IMF), which will expire at the end of January 2008, but the Economist expects it to be renewed. The agreement has emphasized fiscal consolidation, strengthening the financial sector, improving the health of the energy sector, and improving governance.

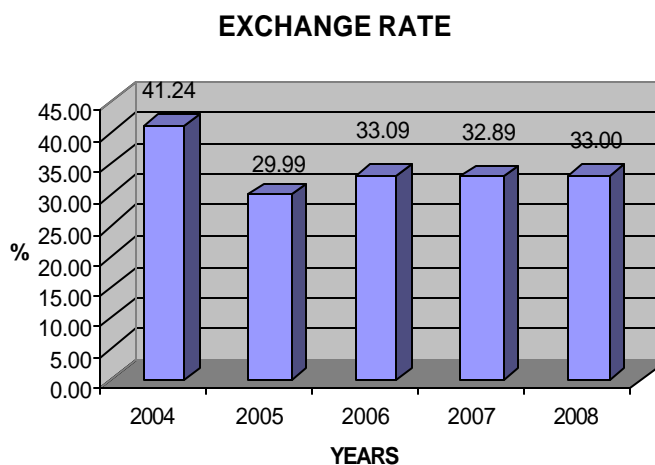
The Gross Domestic Product (GDP) has changed from 2% growth rate in 2002 to 4.5% in 2006. The Economist forecast it to grow by 8% by the end of 2007 before it slows down to 6% in 2008 (The Economist web page 2007)

The exchange rate has dropped significantly compared to 2004, when it went up to 41.24%, to 33.09 in 2006, and it is expected to continue at similar level during 2007 and 2008 with minor fluctuations.

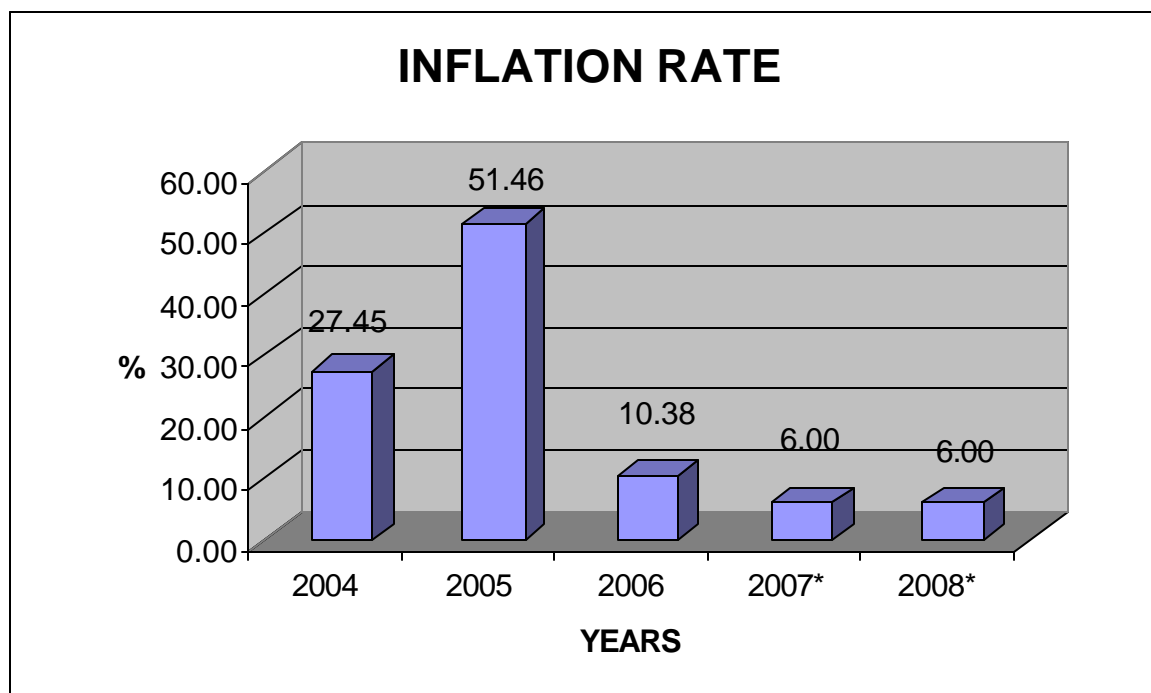
The inflation rate dropped from 51.46% in 2005 to only 10.38 % in 2006. For 2007 and 2008, it is expected to remain at about 6%.



Source: Central Bank of the Dominican Republic and The Economist Intelligence Unit. Data for 2007 and 2008 is a forecast made by The Economist Intelligence Unit's



Source: Central Bank of the Dominican Republic, 2007

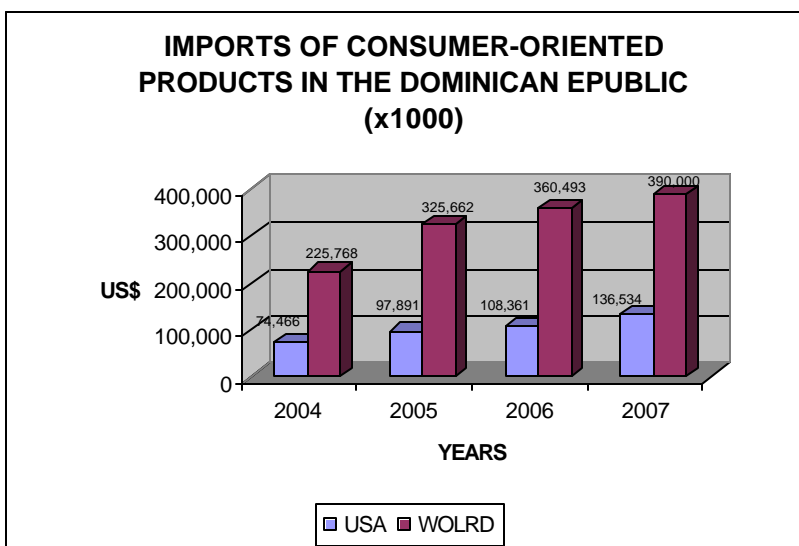


Source: Central Bank of the Dominican Republic and The Economist Intelligence Unit.
Data for 2007 and 2008 are forecast values.

a) The Dominican Food and Beverage Market

The Dominican Republic is the fourth largest market for U.S. agricultural products in the Western Hemisphere, behind Mexico, Canada, and Colombia. According to U.S. trade data, CY 2006 exports equaled \$629 million. The value of exports has grown at a rate of 12% from 2003 to 2006. With current data, the exports should increase by 19% by the end of 2007 compared to 2006.

According to statistics provided by the Central Bank, the total demand for food and beverages was estimated at about US\$2 billion, with an average growth rate of six percent per year. It is also estimated that about 40 percent of all food and beverages consumed in the country are imported.



Source: FAS BICO Report and UN Trade Database
* World total for 2005 to 2007 was estimated based on the average U.S. Market share

According to data from the United Nations database, about 35% of consumer-oriented products imported in the Dominican Republic comes from the United States. In 2006, the Dominican Republic imported an estimated \$226 million of consumer-oriented products with about half from the United States.

Over 70 percent of retail food products in the Dominican Republic is sold through the traditional system of mom n' pop stores called *Colmados*, 25 percent through modern supermarkets, and about five percent by wholesalers. However, this is the market segment through which imported products reach the middle and upper classes, the target market of most U.S. exporters.

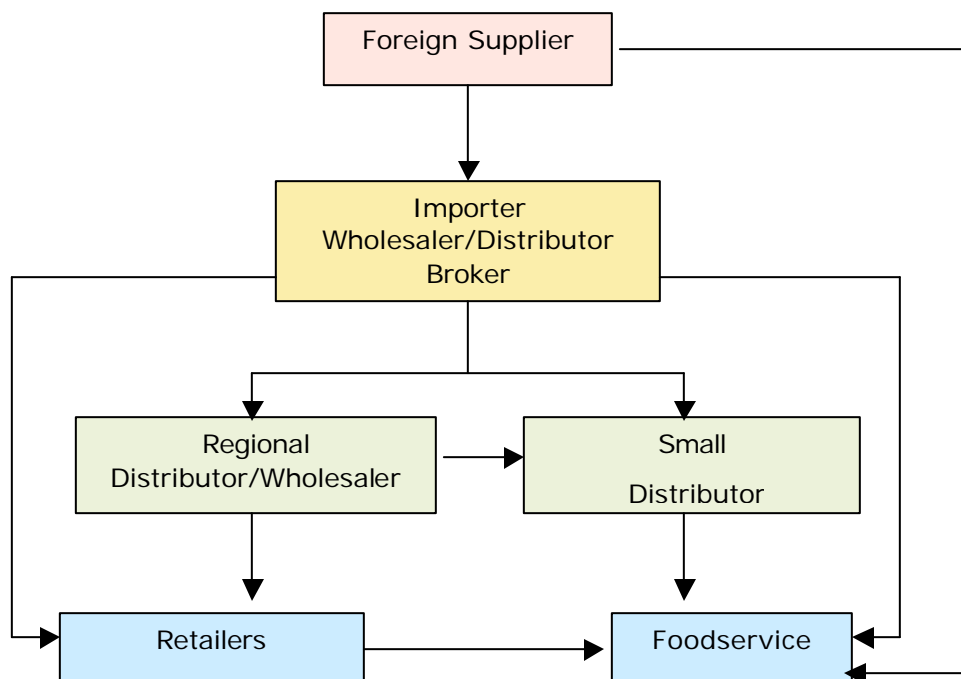
In the Dominican Republic, the general trend in distribution channels has been to reduce the role of intermediaries. Many importers and local producers are distributing their products directly to retailers. The importation and distribution of processed food and beverage products is carried out by both independent importers/distributors, who are the main players for this sector, and through direct importation by supermarkets. The large supermarket chains are importing directly a basic line of food products, which they handle exclusively. For example, Supermercados Nacional carries the private label brands from Supervalu, such as Flovorite, Nutri Plan, Home Best, and Shoppers Valu. Supermercados Bravo imports a basic line of products from IGA. Grupo Ramos (Supermercados Pola) has the exclusive representation for "Shurefine" and "Valuetime", Grupo Ramos has First Class, which is its own private label brand, and Supermercados Plaza Lama has the "High Top" brand and the exclusive distribution for "Promos". These product lines are used in much the same way as store brands to provide a price competitive line of basic products to customers.

Gas marts began to appear in this country in 1995. Currently, there are 44 gas marts in the country that belonged to the four major gasoline companies, Shell, Texaco, Esso, and Isla.

Some of the advantages and challenges facing U.S. exporters in the Dominican market are the following:

Advantages	Challenges
<ol style="list-style-type: none">1. Dominicans are greatly influenced by American culture and have a positive perception of U.S. products.2. The supermarket sector is well developed and the number of supermarkets has grown nationwide, providing greater market penetration for most imported food products.3. The Dominican Custom Service uses the WTO-approved method of customs valuation, which requires that duties be applied to actual invoice prices of imported goods, rather than average or calculated price for imported goods.4. The implementation of the DR-CAFTA agreement gives the United States a competitive advantage in the Dominican market.	<ol style="list-style-type: none">1. Globalization has allowed other regions, such as Europe, South American and Asia, to expand sales into what has traditionally been a U.S.-dominated market.2. Other countries, like the European Union, are trying to sign a free trade agreement with the Dominican Republic.3. Dominican Republic is planning to enforce a Spanish labeling requirement, which will restrict the import of some product from the United States because of the low quantity demanded by the Dominican market.4. Even after the implementation of the DR-CAFTA there are still non-tariff trade barriers to exports from the United States.

MAIN DISTRIBUTION STRUCTURE



II. ROAD MAP FOR MARKET ENTRY

a) Supermarkets

Entry Strategy

The best way to enter the Dominican market is through a local importer/distributor. These importers/distributors are familiar with the market, business practices, and related laws. They are able to establish direct contacts with other buyers in the country.

The large supermarket chains have established independent companies to import food products and beverages. As wholesalers, these companies resell the imported products to regional/small wholesalers/distributors, restaurants, retailers and food service institutions. As retailers they use their own supermarkets to reach the consumers.

Supermarkets have a buying structure that depends on their size, which varies from 3,000 to 60,000 square feet. The largest supermarket chains have purchasing departments with several buyers, specialized by product line. Normally, supermarkets have no more than three to five brands of one type of product, and the selection of these brands is based on competitive advantage criteria for the business and for customers. Usually, quality and price are the two most important variables that affect this decision. Consumers consider U.S. products as high quality ones.

Market Structure

- Normally, products are imported through an importer or agent, who may also be a wholesaler and/or distributor.
- In the case of large supermarkets, most have a separate company, in a holding group, which assumes the function of importer/distributor.
- Logically, supermarkets will prefer products that are imported by their own companies, but they do purchase products from other importer/distributors.
- While some small supermarkets are closing, the big supermarket chains are always looking for new locations both in Santo Domingo and other cities to take advantage of the growing population.
- According to national laws, any business may import goods directly.
- Purchasing managers of some supermarkets chains estimate that the sales of imported products in their establishments are between 40 and 45 percent of total sales, of which about 50 percent of these are U.S. products.
- Floor space of the largest supermarkets (Nacional, Pola, Bravo, La Cadena, Plaza Lama, Carrefour, Hiper Ole, and PriceSmart) ranges from 10,000 to 35,000 square feet and they have 8 to 15 cash registers per establishment.

Table 2.a. PROFILE OF THE MAJOR SUPERMARKETS

Name of Retailer	Ownership	Outlets	Location	Purchasing Agent
Supermercados Nacional (Including 3 Jumbo Hypermarkets)	Dominican/Spain	21	Santo Domingo Santiago La Romana	Direct importers Wholesalers/Distributors
Supermercados Pola	Dominican/Spain	15	Santo Domingo Santiago San Francisco de Macoris	Direct importers Wholesalers/Distributors
Supermercados La Cadena	Dominican/Spain	7	Santo Domingo	Direct importers and distributors
Supermercados Plaza Lama	Dominican/Spain	4	Santo Domingo	Direct importers and distributors
Supermercados Bravo	Dominican/Spain	4	Santo Domingo	Direct importers and distributors
Price Smart Warehouse	US	2	Santo Domingo Santiago	Direct importers and distributors
Carrefour	French	1	Santo Domingo	Direct importers and distributors
National Association of Small Supermarkets (UNASE)	Dominican	34 members	Major Cities	Direct importers and distributors

Source: FAS/Post Internal Research

Company Profiles

Supermercados Nacional

Supermercados Nacional is the largest supermarket chain in the Dominican Republic. It has twenty-one stores, including three “Jumbo”, located in the cities of Santo Domingo, Santiago and La Romana. This chain is the pioneer of the Dominican supermarket business. Centro Cuesta Nacional (CCN) manages the chain, which has its own procurement and distribution center to source products and supplies the stores.

Centro Cuesta Nacional also has “La Despensa” to target the lower-income population. Currently, La Despensa has six outlets. The plan is to transform the La Despensa stores in a concept similar to the “Jumbo” stores, but smaller.

The Supermercados Nacional stores are modern and spacious. The outlet in La Romana is located inside Casa de Campo, one of the most exclusive resorts in the country. Because of Supermercados Pola's location, it carries a lot of gourmet products that are not usually found in the other outlets. Its private label brands are Flovorite, Nutri Plan, Home Best, and Shop to the Max. This is the second largest supermarket chain in the country. The chain is owned by the Ramos Business Group (Grupo Ramos). Supermercados Pola has 15 outlets located in Santo Domingo and Santiago. Importadora Oceanica is the company within Grupo Ramos that handles imports and distribution of food and beverage products. This company works almost the same way as Centro Cuesta Nacional and also has exclusive representation of different brands. It sells its products through Supermercados Pola and supplies other retailers, as well.

Supermercados La Cadena

This supermarket chain was established in 1999 after some of the members of the Ramos family, owners of Supermercados Pola, decided to start their own supermarket chain. The chain currently has seven outlets in Santo Domingo. The supermarkets are owned and managed by Mercatodo, S.A.

Supermercados Bravo

The owner of Supermercados Bravo was one of the founders and owners of Supermercados Pola. With that experience in the food sector, he decided to start his own import business, BEMOSA. Later, in the 1997, he decided to go back to the supermarket business and established Supermercados Bravo. The first store was inaugurated in 1998. Currently, Supermercados Bravo has four stores in Santo Domingo and plans to open two additional ones in two years.

Supermercados Plaza Lama

The original focus of the Plaza Lama store was as a retailer of appliances, shoes, and clothing. In 1991, they added dry food products to provide additional services to the customers. The first real supermarket with full lines of grocery and frozen products was established in 1995. Another supermarket and a mini market were opened in 1999.

In 2001, Plaza Lama opened a centerpiece-shopping complex in one of the main commercial areas of Santo Domingo. The plaza included the largest supermarket of the Plaza Lama's chain and it includes a deli and a gourmet product section. Currently, the chain has four supermarkets and a mini market all located in Santo Domingo. The plan is to open two more stores next year. The supermarket portion of the Plaza Lama business is currently the second largest department following appliances. It seems likely that supermarkets will evolve into the main business in the near future.

b) Convenience Stores and Gas Marts

In addition to the ubiquitous mom-and-pop-type corner store (*colmados*), there are a growing number of gas marts in the Dominican Republic. These locations are not identical in format to those in the United States in that they are smaller and serve little hot food, focusing on snack foods and beverages. As a business model, they have one important drawback-attendants who pump gas and collect money, so customers do not have to enter the store to pay for gas serve the gasoline station. This means that a majority of gas customers never enter the store, reducing the sale of impulse items on which these stores usually thrive.

Market Entry

As indicated above, there are a limited number of products that can be introduced in these stores. If you are a snack food or beverage company or you are willing to do the pioneering works to get these stores to carry your hot food products, these could be a good point to introduce your products. These stores prefer to buy directly from importer/distributors that have direct distribution systems. Our recommendation is to make contact with the companies themselves and the importer/distributors that already supply them to do the initial work necessary to expose them to your products.

Market Structure

Most of the convenience stores located in gas marts are managed according to norms established by the gasoline company. These stores are relatively new, having appeared only within the past 9-10 years. Texaco has about 7 Star Mart outlets. Shell has 11 Select stores. Esso has 21 (4 On the Run and 17 Tiger Market), Isla has 4 Mini Markets, which they are leasing out.

Table 2.b. PROFILE OF THE MAJOR CONVENIENCE STORES

Name of Retailer	Ownership (Local/ Foreign)	Number of Outlets 2007	Location	Purchasing Agent
On the Run (5) & Tiger Market (17) (Esso)	Dominican	22	Nationwide	Distributor
Star Mart (Texaco)	Franchise/ Dominican	7	Nationwide	Distributor
Select (Shell)	Dominican	10	Nationwide	Distributor
Mini Mart (Isla)	Dominican	5	Santo Domingo	Distributor

Source: Ag Office Internal Research

c) Traditional Markets - "Mom-and-Pop" Corner Stores

Market Structure

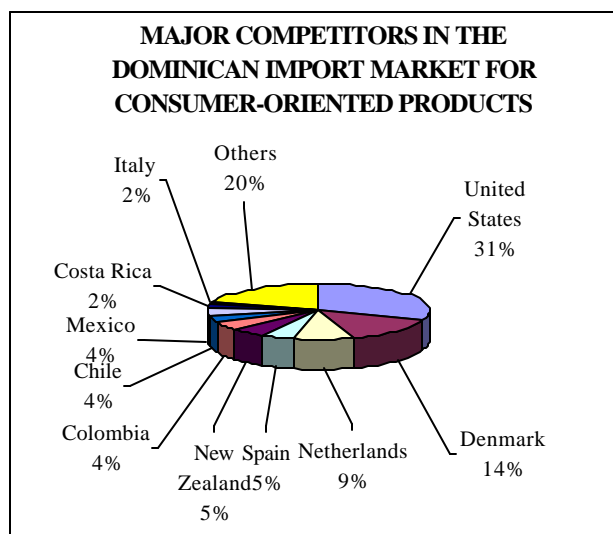
There are over 60,000 small mom n' pop stores in the country, referred to locally as *Colmados*. Over 1,600 food wholesalers nationwide supply these *colmados*. Most of these suppliers are located in the Santo Domingo and Santiago areas. The *Colmados* have refrigeration systems for drinks (beers, juices and soft drinks), but only very few have storage for fruits and vegetable. Because the electrical supply in the country is very unstable, many of them do not handle perishable foods. In middle and upper-class areas, the stores thrive on home deliveries of items, such as beverages and other individual items for which the customer is willing to pay a higher price to avoid a trip to the supermarket.

Colmados account for a large portion of national sales, but sell a very limited line of products, which include a large percentage of domestically produced products (around 80 percent). They also tend to sell in very small quantities and at prices 5 to 15 percent higher than the supermarkets. Middle and upper class consumers generally make large weekly shopping trips to supermarkets, where there is a better selection of products and lower prices. They supplement this with small purchases at the nearest *colmado*.

III. COMPETITION

Reliable statistics on the total consumption of food and beverages in the country are not available. Importers and retailers estimate that about 40 percent of all food and beverages consumed in the country is imported.

According to data from the United Nations database, between 30 and 35 percent of imported consumer-oriented products in the Dominican Republic comes from the United States. The other major suppliers are Denmark, Netherlands, Spain, New Zealand, Colombia, Chile, Mexico, Costa Rica, and Italy.



Source: FAS BICO Report and UN Trade Database
Data are based on the average from 2000 to 2004

IV. BEST PRODUCTS PROSPECTS

Dominican importers and consumers have shown high interests in the following products:

**U.S. Exports to the Dominican Republic
(Thousand of Dollars)**

PRODUCTS	2006	Percentage Change from 2005 to 2006
1. DAIRY PRODUCTS	17,316	- 6.98
2. RED MEATS, FRESH/CHILLED/FROZEN	15,398	38.48
3. SNACK FOODS (EXCL NUTS)	10,869	23.51
4. FRESH FRUIT	9,371	769.29
5. PROCESSED FRUIT & VEGETABLES	7,755	- 4.39
6. POULTRY MEAT	7,266	- 21.83
7. BREAKFAST CEREALS & PANCAKE MIX	4,668	32.13
8. FRUIT & VEGETABLE JUICES	4,528	18.38
9. WINE & BEER	4,080	- 11.32
10. TREE NUTS	2,007	49.89

Source: FAS BICO Report

Products Not Present in Significant Quantities but with Good Sales Potential

There are few products from the United States, which have not been already introduced into the Dominican market. The Dominican Republic usually follows the same trend as the United States. Dietary and healthy products, although not present in large quantities, do have a small but growing niche in the Dominican supermarket sector. There are also health food mini-stores, which are also being opened in response to public demand. As the market opens, demand for low-carb and healthy products will likely grow. After the BSE case was found in the United States, Government officials restricted the import of pet foods. Importers needed to look for other suppliers in Central America. We consider that as soon as this market access problem is resolved, the United States will continue to be the major supplier again.

Products Not Present Because They Face Significant Barriers

The main import barrier faced in the market is the difficulty and arbitrariness in obtaining the non-objection certificates (import permits) for products such as meat, poultry, dairy, etc., (Please see Exporter Guide DR7020)

V. POST CONTACT AND FURTHER INFORMATION**FOREIGN AGRICULTURAL SERVICE**

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